"A STUDY OF INVESTOR AWARNESS TOWARDS ESG AS AN EMERGING TREND OF INVESTMENT WRT. MUTUAL FUND INDUSTRY IN MUMBAI REGION"

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Ph.D. Research Proposal

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Proposed Research Topic:

A Study of Investor Awareness Towards ESG as an Emerging Trend of Investment wrt. Mutual Fund Industry in Mumbai Region

1. Introduction:

Mutual Fund Industry

The history of Mutual Fund Industry in India can be traced back to 1963, with the launch of the Unit Trust of India by the Government of India under an Act of Parliament. UTI was launched under the regulatory and administrative control of RBI. In 1978, the regulatory and administrative control of UTI was transferred from the Reserve Bank of India to IDBI (Industrial Development Bank of India). The first mutual fund scheme that was introduced in India by UTI was in the Unit Scheme (1964). UTI had Assets Under Management worth Rs. 6,700 Crores, by the end of the year 1988.

In 1987, public sector enterprises such as State Bank of India, Punjab National Bank, Canara Bank, etc. and other non-UTI segments such as General Insurance Corporation of India (GIC) and Life Insurance Corporation of India (LIC) entered the market and established public sector mutual funds. The funds introduced by the public sector banks, by way of historic progression, are listed below:

- SBI Mutual Fund
- Canbank Mutual Fund
- Punjab National Bank Mutual Fund
- Indian Bank Mutual Fund
- Bank of India Mutual Fund
- Bank of Baroda Mutual Fund

From the year 1993 onwards, private sector funds were established in the mutual fund industry. In the same year, Mutual Fund Regulations were introduced in India under which all mutual funds except UTI has to be registered. The first private sector mutual fund that was registered was the Kothari Pioneer Fund, which was merged with Franklin Templeton later on. In 1996, the Mutual Fund Regulations were revised and this substituted the earlier version.

In 2003, the Unit Trust of India Act 1963 was repealed and was divided into 2 separate entities – the UTI Mutual Fund, which is sponsored by Punjab National Bank, State Bank of India, Life Insurance Corporation of India and Bank of Baroda and the second entity is the Specified Undertaking of the Unit Trust of India. This bifurcation was effective from February 2003.

What is a Mutual Fund

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund—derived by the aggregating performance of the underlying investments.

Advantages of Mutual Funds

There are a variety of reasons that mutual funds have been the retail investor's vehicle of choice for decades. The overwhelming majority of money in employer-sponsored retirement plans goes into mutual funds. Multiple mergers have equated to mutual funds over time.

Diversification

Diversification, or the mixing of investments and assets within a portfolio to reduce risk, is one of the advantages of investing in mutual funds. Experts advocate diversification as a way of enhancing a portfolio's returns, while reducing its risk. Buying individual company stocks and offsetting them with industrial sector stocks, for example, offers some diversification. However, a truly diversified portfolio has securities with different capitalizations and industries and bonds with varying maturities and issuers. Buying a mutual fund can achieve diversification cheaper and faster than by buying individual securities. Large mutual funds typically own hundreds of different stocks in many different industries. It wouldn't be practical for an investor to build this kind of a portfolio with a small amount of money.

Easy Access

Trading on the major stock exchanges, mutual funds can be bought and sold with relative ease, making them highly liquid investments. Also, when it comes to certain types of assets, like foreign equities or exotic commodities, mutual funds are often the most feasible way—in fact, sometimes the only way—for individual investors to participate.

Economies of Scale

Mutual funds also provide economics of scale Buying one spares the investor of the numerous commission charges needed to create a diversified portfolio. Buying only one security at a time leads to large transaction fees, which will eat up a good chunk of the investment. Also, the Rs. 100 to Rs. 5000 an individual investor might be able to afford is usually not enough to buy a round lot of the stock, but it will purchase many mutual fund shares. The smaller denominations of mutual funds allow investors to take advantage of rupee cost averaging.

Because a mutual fund buys and sells large amounts of securities at a time, its transaction cost are lower than what an individual would pay for securities transactions. Moreover, a mutual fund, since it pools money from many smaller investors, can invest in certain assets or take larger

positions than a smaller investor could. For example, the fund may have access to IPO placements or certain structured products only available to institutional investors.

Professional Management

A primary advantage of mutual funds is not having to pick stocks and manage investments. Instead, a professional investment manager takes care of all of this using careful research and skillful trading. Investors purchase funds because they often do not have the time or the expertise to manage their own portfolios, or they don't have access to the same kind of information that a professional fund has. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments. Most private, non-institutional money managers deal only with high net worth individuals—people with at least six figures to invest. However, mutual funds, as noted above, require much lower investment minimums. So, these funds provide a low-cost way for individual investors to experience and hopefully benefit from professional money management.

Variety and Freedom of Choice

Investors have the freedom to research and select from managers with a variety of styles and management goals. For instance, a fund manager may focus on value investing, growth investing, developed markets, emerging markets, income, or macroeconomic investing, among many other styles. One manager may also oversee funds that employ several different styles. This variety allows investors to gain exposure to not only stocks and bonds but also commodities foreign assets, and real estate through specialized mutual funds. Some mutual funds are even structured to profit from a falling market (known as bear funds). Mutual funds provide opportunities for foreign and domestic investment that may not otherwise be directly accessible to ordinary investors.

Transparency

Mutual funds are subject to industry regulation that ensures accountability and fairness to investors.

Pros

- Liquidity
- Diversification
- Minimal investment requirements
- Professional management
- Variety of offerings

Cons

- High fees, commissions, and other expenses
- Large cash presence in portfolios
- No FDIC coverage
- Difficulty in comparing funds
- Lack of transparency in holdings

2. Literature Review:

Martin P. and McCann B. (1998) in their book titled "The Investor's Guide to Fidelity Funds – Winning Strategies for Mutual Fund Investing" have very nicely guided investors regarding issues related with mutual fund investing. They have advised that Investors should focus on sectors of the global economy that have the greatest potential for profit in order to beat the market averages. By combining this approach with the safety provided by mutual funds' inherent diversification, mutual funds become an investment vehicle with all the advantages of trading individual securities and none of the disadvantages. Like any other investment, it is essential to develop a strategy for selecting which funds to buy and sell – and when. These decisions should not be left to the emotions or to chance.

Gremillion L (2005) in his book "Mutual Fund Industry Handbook – A Compehensive Guide for Investment Professionals" has given detailed information about working of mutual fund industry. It has also mentioned the different type of challenges faced by various professionals connected with this industry. The book has provided a broad and comprehensive sweep of information and knowledge, which will help everybody who has serious interest in the industry.

Tyson E (2007) in his book "Mutual Funds for DUMMIES" (5th edition) has provided practical and profitable techniques of mutual fund investing that investors can put to work now and for many years to come. By proper selection investor can identify good schemes, where fund managers invest in securities as per that match investors' financial goals. Investors can spend their time doing the activities in life that they enjoy and are best at. Mutual Funds should improve investors' investment returns as well as their social life. The book helps investors how to avoid mutual fund investing pitfalls and maximizing their chances for success. Whenever any investor wants to buy or sell a mutual fund, the decision needs to fit his overall financial objectives and individual situation.

Jank S (2010) in his Discussion Paper on "Are there disadvantaged clieneles in mutual funds?" has mentioned that mutual fund investors chase past performance, even though performance is not persistent over time. This means that investors buy mutual funds that had a high return in the past. On the other hand, investors are reluctant to withdraw their money from the worst performing funds. This behavior has often been attributed to the irrationality of mutual fund investors. Sophisticated investors rationally chase past performance, because high past performance is a signal for managerial ability. No significant difference was found between investor composition of the worst performing funds and those with average performance.

Singh B K (2012) in an article "A study on investors' attitude towards mutual funds as an investment option" from International Journal of Research in Management has reiterated the need for spreading the awareness about Mutual Funds among common masses. There is a strong need to make people understand the unique features of investment in Mutual Funds. From the existing investors point of view the benefits provided by mutual funds like return potential and

liquidity have been perceived to be most attractive by the invertors' followed by flexibility, transparency and affordability.

Divya K. (2012) in the article "A Comparative study on evaluation of Selected Mutual Funds in India" from International Journal of Marketing and Technology has suggested that the investment managers whose performance is below benchmark index should have a relook at their investment strategy and asset allocation. Investing styles should be redesigned according to up & down swings of the market to generate superior performance. To increase the efficiency and popularity of mutual funds, the regulator should set the standard criteria of benchmarks which will be helpful to asset management companies.

Goel S et al (2012) in the article "A Review of Performance Indicators of Mutual Funds" from Researchers World – Journal of Arts, Science & Commerce have reiterated that the Stock picking ability and lengthy tenure of fund managers are favourable for mutual funds' performance. Performance of the Mutual Fund is also related to its ownership style. Local mutual funds perform better than the foreign mutual funds as they have better knowledge of the local market. Mutual Fund companies with larger asset base are performing better than lower asset base companies. Vanaja V. and Karrupasamy R (2013) in the article "A study on the performance of select Private Sector Balanced Category Mutual Fund Schemes in India" from International Journal of Management Sciences and Business Research have mentioned that Out of five private sector balanced category mutual funds (under study) two earned a return above the average returns. Two have made negative returns. All the private sector balanced category funds selected for the study have a positive Sharpe ratio. The range of excess returns over risk free return per unit of total risk is wide. All the funds selected for the study have a positive Treynor ratio. All the funds selected for the study has positive Jensen's alpha indicating superior performance.

Narayanasamy R. and Rathnamani V (2013) in an article "Performance Evaluation of Equity Mutual Funds (on selected Equity Large Cap Funds)" from International Journal of Business and Management Invention have mentioned that all funds performed well during the period under study despite volatility in the market. The fall in NIFTY during the year 2011 impacted the performance of all selected mutual funds. In order to ensure consistent performance of mutual funds, investors should also consider statistical parameters like alpha, beta, standard deviation besides considering NAV and total return.

Santhi N.S. and Gurunathan K. (2013) in the article "The growth of Mutual Funds and Regulatory Challenges" from Indian Journal of Applied Research have mentioned that as mutual fund industry has grown tremendously over past few years, Regulators are keeping close watch on any potential impact of mutual fund products on financial stability and market volatility. The growth of mutual funds has been accompanied by innovative products and servicing methods. Regulators will have to do balancing act by carefully managing risks and not imposing unnecessary regulation.

Iqbal N (2013) in an article titled, "Market Penetration and Investment Pattern of Mutual Fund Industry" from International Journal of Advanced Research in Management and Social Sciences has mentioned that although mutual funds are predominantly present in urban areas but have started capturing rural markets also through new range of products, new strategies adopted for Rural Market Penetration and with new awareness programs. As rural market integrate more and more with urban, there will be huge inflow of investors. The responsibility of various intermediaries' especially mutual funds will increase manifold.

Sharma R and Pandya N K (2013) in the article "Investing in Mutual Fund: An overview" from Asian Research Journal of Business Management mentioned that still number of people are not clear about functioning of Mutual Funds, as a result so far they have not made a firm opinion about investment in mutual funds. As far existing investors, return potential and liquidity have been perceived to be most attractive. There is a lot of scope for the growth of mutual funds in India. People should take decision based on performance of Mutual fund rather than considering whether it is private sector or public sector.

Sharma N. and Ravikumar R (2013) in an article "Analysis of the Risk and Return relationship of Equity based Mutual Fund in India" from International Journal of Advancements in Research & Technology have mentioned that their study investigated the performance of Equity based mutual fund schemes using Capital Asset Pricing Model (CAPM). In the long run private and public sector mutual funds have performed well. But while comparing the performance over last 15 years it is found that private sector mutual funds have outperformed the Public Sector mutual funds. The schemes of private sector mutual funds not only performed better than those of public sector mutual funds but were also found to be less risky.

Vasantha S. et al (2013) in an article "Evaluating the Performance of some selected open ended equity diversified Mutual fund in Indian mutual fund Industry" from International Journal of Innovative Research in Science, Engineering and Technology have stated that risk appetite of an investor plays an important role in selection of mutual fund. While deciding their investment in mutual funds investor should take decision based on their investment objective and analyze the fund based on various criteria such as risk prevailing in the market, variations on the return and deviations in the return etc.

Jani D and Jain R (2013) in an article "Role of Mutual Funds in Indian Financial System as a Key Resource Mobilizer" from Abhinav Journal (International Monthly Referred Journal of Research in Management & Technology) have reiterated that since fundamentals of Indian economy are relatively strong, the economy will be on a successful path in the coming year. As economy grows, Mutual Funds are going to be key resource mobilizer for Indian financial system. Indian Mutual Fund industry is going to observe good growth rate in near Future.

Nair R K (2014) in the article "Indian Mutual Fund Market – A tool to stabilize Indian Economy" from International Journal of Scientific and Research Publications has reiterated that a Mutual fund is a powerful tool to stabilize Indian economy. The products of mutual funds are playing a vital role in mobilizing scattered savings among investors and channelize these funds

to infrastructural development of the country. The banks and Financial Institutions are also playing a crucial role by promoting mutual fund business in the country.

Sehdev R and Ranjan P (2014) in the article "A study on Investor's perception towards mutual fund investment" from Scholars Journal of Economics, Business and Management have mentioned that mostly people are preferring balanced funds and debt funds. After that people look for Equity diversified and Sector funds. The factors responsible for investors' preference for mutual funds as an investment option are benefits and transparency, returns, redemption period, Liquidity and Institutional Investor's activity. For information on mutual funds people are mostly depending on internet rather than any other media channel.

Cici G et al (2014) in their Discussion Paper on "Market transparency and the marking precision of bond mutual fund managers" have stated that the transparency enhancing TRACE (Trade Reporting and Compliance Engine) system was associated with large and statistically decreases in cross fund bond mark dispersion. They also find some evidence that issuer initiations into Markit's CDS (Credit Default Swap) spread database also contributed to a decrease in bond mark dispersion, but only in pre –TRACE era. These results support the view about people "operating largely in the dark" applied to not just retail investors but also to professional fund managers.

Srivastava S and Malhotra S (2015) in an article "A Paradigm Shift in Risk Measuring Tools of Mutual Fund Industry" from International Journal of Informative & Futuristic Research have mentioned that equity funds are performing better than debt funds. A strong linear relationship was found between risk and return. Fund managers can adopt Calmar ratio and safety first ratio to analyze the risk of selected funds. No fund is risk free and Investors should invest in equity and equity related instruments to diversify the risk.

Prabhu G and Vechalekar N.M. in the article "Perception of Indian Investor towards investment in mutual funds with special reference to MIP Funds" from IOSR Journal of Economics and Finance have mentioned that most of the investors are aware of various schemes of mutual funds. The mutual fund investors mainly belong to the age group from 19 years to 55 years. The investors fall in the income group of Rs 30,000 to Rs 70,000 and above. Investors prefer mutual funds due to diversification of portfolio and tax benefits. Consistent returns given by funds have been the reason of investors' interest in MIP fund.

3. Chapter Scheme:

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Bibliography/References

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4. Research Methodology:

4.1. Research Problem- The mutual fund industry has always been an avenue for investment and is used as a tool to diversify portfolio but as a layman it's a difficult task to select the best among the multiple schemes available with different investment objective. Moreover it's also difficult to decide as to whether the schemes will survive with the changing tide with respect to change in geopolitical scenario. With the decrease in the returns of traditional instruments like real estate, gold, government securities, fixed deposits there is an incremental interest of investors towards mutual fund sector. The researcher is proposing an attempt to analyze the problems faced by individual investors in mutual fund. The researcher is also proposing an

attempt to analyze prospects available for long term returns if made based on ESG model which is the need of the hour.

4.2. Objective of the study- The proposed research will be undertaken with the following objectives:

i. To analyze the evolution, growth and present situation of Mutual Fund Industry.
ii. To study the problems faced by individual investor in Mutual Fund Industry.
iii. To study the impacts of changes in Economical Social & Governance wrt mutual fund investment
iv. To analyze the prospects available for individual investors if investment made based on ESG model

4.3. Scope of the study- The research is proposed to be restricted to the region of Mumbai. The proposed research will consider only Mutual Funds making investment based on ESG

.4. Hypothesis- The proposed research will be based on testing the following hypotheses:

i. **H_0 :**Lack of information does not lead to irrational investment decision

H_1 : Lack of information does lead to irrational investment decesion

ii. **H_0 :** Non significance of Environmental issue on mutual fund investment

H_1 :. Significance of Environmental issue on mutual fund investment

iii. **H_0 :** Non significance of Social issue on mutual fund investment

H_1 : Significance of Social issue on mutual fund investment

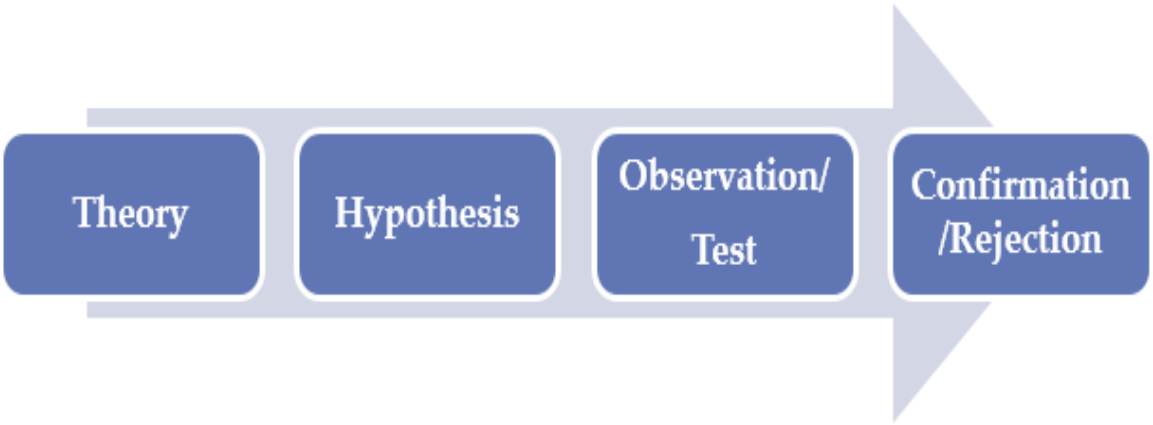
iv. **H_0 :** Non significance of Governance issue on mutual fund investment

H_1 : Significance of Governance issue on mutual fund investment

v. **H_0 :** Changes in regulations and policy support from Government does not create opportunities for individual investment in Mutual Fund Industry

H_1 : Changes in regulations and policy support from Government does create opportunities for individual investment in Mutual Fund Industry

4.5. Research Approach- The research is proposed to be deductive in nature as it is based on formulating and testing hypotheses from an already existing research.



4.6. Sampling Design- Non- probability convenient sampling method will be used to collect data from mutual fund investors, non mutual fund investors, mutual fund agents in Mumbai. The sample size will be 250 mutual fund investors, investors in traditional instrument, mutual fund brokers taken together.

4.7. Research Design- The research is proposed to be exploratory as it will be based on already researched data through journals, reference books, articles, etc. It will as be descriptive in nature since it will try to get answers to various why, when, where, how questions relating to the proposed research. It is also empirical in nature as it is based on testing of hypotheses.

4.8. Statistical Techniques- Considering the nature of research, statistical tools, namely, chi-square, t-test and ANOVA will be used.

4.9. Method of Data Collection- The data will be collected through primary as well as secondary sources. Primary data will be collected through Structured questionnaire. Secondary data will be collected through various journals, reference books, e-books, newspaper articles, etc.

4.11. Limitations of the study-The proposed study will have the following limitations:

i. The study is restricted only to the district of Mumbai
ii. The research is confide to only mutual fund investors, traditional investors, Mutual Fund agents & brokers.
iii. Primary data may not be reliable as it depends upon the perception of the person answering the research related questions
iv. Time and money may be the constraints.

5. Data Analysis & Findings:

The data will be analyzed using various statistical tools, namely, chi-square, t-test and ANOVA using SSPS 14.0 package.

The Findings relating to problems, prospects and current status of Mutual Fund Industry will be based on surveys and secondary data published by Real estate regulatory authority, various research agencies, real estate developers etc.

Findings relating to problems and prospects of residential sector of real estate industry will be based on data collected from structured questionnaire and statistical analysis of the same.

6. Bibliography:

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